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COPY NO. 17

OCI NO 3059/57

27 June 1957

CURRENT INTELLIGENCE WEEKLY SUMMARY



DOCUMENT NO. 5
NO CHANGE IN CLASS. ☐
☐ DECLASSIFIED
CLASS. CHANGED TO: TS
NEXT REVIEW DATE: 1983
AUTH: HR 702
DATE: 30 Aug 79 REVIEWER:

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CENTRAL INTELLIGENCE AGENCY

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PART I

OF IMMEDIATE INTEREST

NATIONAL PEOPLE'S CONGRESS OPENS IN PEIPING

Chou's Speech

Chou En-lai, in his 30,000-word address to the opening session of the twice-delayed National People's Congress on 26 June, reaffirmed established positions on questions of foreign and domestic policy. Chou spoke before 1,062 deputies, foreign guests and Mao Tse-tung and Liu Shao-chi, who presided over the opening session.

Chou, according to the official Chinese Communist summary of his speech, declared that during the past year the international situation has been developing along lines "beneficial to peace" despite constant threats posed by American "imperialist policy." As major factors in this development, he cited "reasonable" Soviet proposals for arms limitation, the growing importance of the Asian-African countries, the increasing Japanese demands for "independence," and the Taiwan riots.

In line with Peiping's continuing emphasis on Sino-Soviet bloc unity, Chou asserted that solidarity had grown, not weakened, following the Hungarian rebellion. Facts, he said, prove that unity based on "proletarian internationalism and equality" cannot be destroyed by provocations. He praised Soviet economic assistance for Communist China, declaring that Peiping's achievements were "inseparable" from Soviet help and "expert guidance." He expressed "heartfelt thanks" for Russian aid and promised that Communist China would continue to "learn seriously" from the

Soviet Union and all other Socialist countries.

On the economic side, Chou revealed that overspending in 1956 and a poor agricultural showing, which he blamed on the "worst weather in several decades," had resulted in a budget deficit of \$750,000,000 at the end of that year. Surpluses left over from previous years covered only a part of the deficit, forcing the regime to borrow and issue currency to cover the remainder. This is the first year since 1950 that the regime has admitted the need of a currency issue to cover a deficit. Chou said that the Chinese Communists plan to achieve a balance in the 1957 budget by increasing revenues and reducing expenditures, including a cut of 20 percent for investment in fixed assets.

On domestic political matters, Chou admitted that the Communists had executed about one in six "counterrevolutionaries" arrested before 1952. Communist statements at the time indicated a much higher ratio than this and a total greater than the 800,000 executions reported in unofficial versions of Mao's "secret" speech. Chou defended the "few cases" which had been mishandled by claiming that Communist achievements were "fundamental," while errors were "individual."

Chou repeated last year's promise of a government decentralization program which would encourage local initiative "under central leadership." Speaking specifically to

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"democratic" party leaders who had been accused of overstepping the bounds of legitimate criticism, Chou reaffirmed the fundamental principle that the United Front is led by the Chinese Communist Party and based on a foundation of "socialism." He warned that departure from this principle would lead to the expulsion of "democratic" parties from the front.

Later sessions of the congress may decide the fate of these non-Communist leaders, several of whom are cabinet ministers. It seems likely that they will not receive severe punishment in view of Mao's policy of resolving "contradictions" through persuasion and education. However, they may be replaced by less outspoken non-Communist officials.

Invitation to Criticism

Early in May, the Chinese Communist Party had invited the "democratic" or puppet parties to participate in the regime's efforts to improve its work through criticism and self-criticism. Top "democratic" leaders such as Lo Lung-chi, the minister of timber industry, Chang Po-chun, the minister of communications, Chang Nai-chi, the minister of food, Lung Yun, a vice chairman of the National Defense Council, and others, responded almost immediately. Their criticism attacked the regime at its core; that is, they challenged the leadership of the Communist Party and the need for "socialism" in China.

Since the most outspoken of these critics are among the top leaders of their respective parties--men who during many years of co-operation with the Communists have presumably learned about Communism and its restrictions--there is consider-

able question concerning their motivation. One strong possibility is that they received initial encouragement from the Communists, but went too far, either because they misjudged the limits laid down by Peiping or were carried away by a genuine sense of frustration with the regime.

Another, and perhaps more likely, possibility is that they are being sacrificed by the Communists in order to discourage others from following them. This reasoning is supported by editorials calling for the separation of "antisocialist" criticism from constructive criticism.

In the past several weeks there has been a rash of editorials in the official People's Daily branding these critics as "rightists" and calling for strong counter criticism of their "antisocialist" views. The puppet parties have responded by violently attacking their own leaders, and one party at least has called for the expulsion of two of its top leaders.

The publication on 18 June of the edited version of Mao's secret speech should have removed any doubts among intellectuals about the extent of approved criticism. His six standards for distinguishing right and wrong narrowly limit criticism to that which is directed toward strengthening the people's democratic dictatorship, the unity of the party and people, and "socialism."

The present National People's Congress session may provide the first major public demonstration of Peiping's method of resolving "contradictions."

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REACTION TO PLAN FOR KOREAN ARMS MODERNIZATION

The Communist bloc, and Peiping in particular, has sharply condemned the American decision to give UN forces in South Korea modern weapons. In general, reactions have expressed grave concern over alleged American attempts to abrogate the Korean armistice unilaterally "in preparation for war."

The first and most outspoken Chinese Communist comment came on 21 June. It asserted that "this American action has destroyed the Korean truce agreement as a whole, seriously threatened the state of the Korean truce and the peace in the Far East." By 23 June, Peiping had somewhat modified its stand, and rather than stating that the truce agreement had been destroyed, limited its observations to "this American action has seriously threatened the armistice agreement."

At the same time, the Chinese Communists pledged that the "Korean-Chinese side would fight to defend the armistice agreement," a pronouncement probably aimed at South Korean leaders who have called for the nullification of the entire truce agreement.

The Soviet Union has also assailed the American decision, although the intensity of Moscow's reaction falls short of Peiping's. Moscow has charged that American attempts to justify new arms for South Korea are linked to a general American campaign to block an agreement on disarmament.

The first objections raised by the regime most directly concerned, North Korea, were

milder than those made in Peiping; Pyongyang, however, may well have been waiting for the line to set before taking a strong stand. Stressing the familiar theme of unification, Premier Kim Il-sung on 21 June called for the withdrawal of all foreign troops and the convocation of an international conference of those states concerned in the settlement of the Korean question. By 24 June, protests had become more belligerent, with North Korean generals asserting to mass gatherings to commemorate the seventh anniversary of the Korean war their ability to "smash the military adventures of the United States."

On 26 June the North Koreans called a meeting of the Joint Military Armistice Commission to reject the American decision and formally present Kim Il-sung's demands as made in his 21 June speech. The Communist objections were propagandistic in nature and did not resemble an ultimatum. At the opening session of the National People's Congress on 26 June, Premier Chou En-lai emphasized that China would give its full support to North Korean proposals for reunification.

Pyongyang's propaganda campaign depicting the modernization as illegal and picturing North Korea as the faithful defender of international treaties is likely to maintain its present high pitch for some time.

Free world comment, which has been sparse to date, although factual and moderate in tone has generally approved the American action. The British, Australian, Canadian and Dutch

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press all mentioned the need to redress the Korean balance of power and considered the decision justified. Both the London Times and Manchester Guardian reported the necessity of the decision but viewed it as regrettable at a time when East and West were talking of reducing their armed strength. The French press reported Paris' official support.

Indian prime minister Nehru, when queried for his opinion, foresaw "trouble, discord and violence" resulting from such weapons being "spread out in all kinds of countries." In Japan, Mainichi Shimbun printed a factual editorial

and cautioned that the UN action could touch off a dangerous armament race in Korea which would have an adverse effect on the London disarmament talks.

Taipei and Seoul hailed the decision as long overdue. President Rhee called the "move indispensable but far from enough." Seoul press reaction was equally approving, only lamenting that the whole armistice agreement had not been abrogated, a long-standing desire of President Rhee. South Korea's initial elation was subsequently deflated by reports that its military forces would not receive equipment with nuclear capability.

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MILITARY DEVELOPMENTS IN SOUTHEAST CHINA

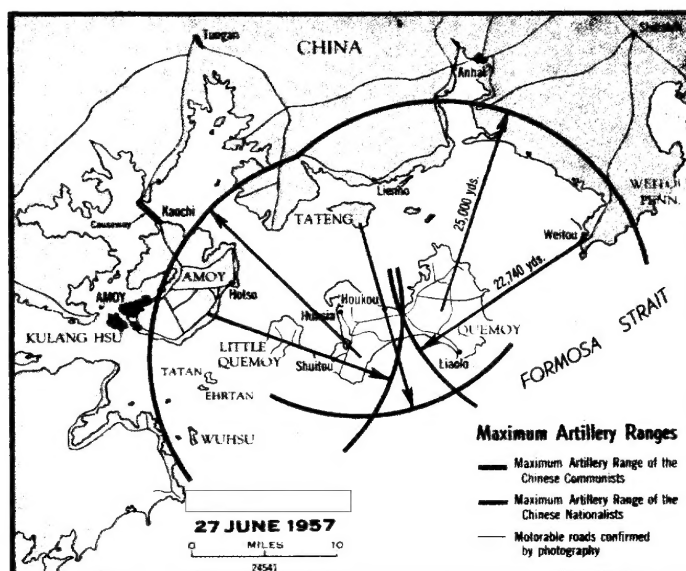
Chinese Communist artillery on 24 June fired 9,000 rounds on the Quemoy Islands, the heaviest artillery barrage against the Nationalist-held islands to date. There is no information indicating a Communist intention for an early invasion of the Quemoy.

Ground Forces

The heavy Communist shelling on 24 June probably stems from one or more of the following factors: retaliation against increased Chinese Nationalist fire and aggressive Nationalist naval activity in the area; a Peiping decision to contest Nationalist assertions that forces on Quemoy will main-

tain closure of the port of Amoy; and reaction to the American decision to modernize UN forces in Korea.

The Chinese Nationalists have recently warned all ships



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to steer clear of Amoy and have indicated that ships approaching during the day will be warned but those plying the channel at night will be fired on without warning. [redacted]

[redacted] officials in Hong Kong are reported to have advised shipping companies against sailing to Amoy. Chinese Communist shore batteries can be expected to provide covering fire for any vessel attempting to enter the port, and this may result in future shooting incidents.

There are about 89,000 Chinese Communist troops in the Amoy area and 84,000 Chinese Nationalists on the Quemoy Islands. The Communists would probably not launch an all-out offensive against the islands without building up their troop strength to at least a three-to-one numerical advantage, although they do have the capability to attack the lightly defended islands of Tatan or Ehrtan. There is no evidence of a Communist build-up at present. [redacted]

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MIDDLE EAST DEVELOPMENTSSyria

Syrian president Quwatly's decision to forego his trip to Europe at this time appears to have reduced prospects of a political power play by the leftist military group which is exercising de facto control. Syrian leftists, following King Hussain's successes in Jordan during April, apparently feared they might be the next target of Western-backed moves. These misgivings were accentuated by internal developments during late May and early June which threatened to alter the balance of power. These included the abortive scheme of moderate legislators to resign and precipitate a cabinet crisis, President Quwatly's "illness" and plans to leave the country, and reports that dispirited Prime Minister Asali wanted to resign.

Since none of these moves has materialized, the leftists at this time appear to be without an opportunity to make a bid for full, open control. The absence of any effective pro-Western military leader in command of a major unit in the Damascus area, however, empha-

sizes the weakness of the opposition.

Tension has increased on the Syrian-Israeli frontier, and Israel has sent a warning to Syria through the Israeli-Syrian Mixed Armistice Commission against a repetition of recent killings.

Increasing attacks on King Saud in the Syrian press have provoked Saud to the point where he has threatened to close his embassy in Syria unless the attacks stop. Saud's ambassador has already left Syria.

Israeli Reactions

Israel has expressed "serious concern" that the emergence of a relatively pro-Western Arab group under King Saud might result in diminished Western support for Israel, and "foretells a difficult political struggle for Israel." Foreign Minister Meir has said she fears that each bloc in the divided Arab world "would attempt to prove itself the leading protagonist of hatred and war against Israel." She also expressed concern that the emphasis which Saud placed on the religious character of his leadership was

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contributing to a heightening of Arab-Israeli tension. Mrs. Meir stated that if this situation continued, Saud could in the long run prove more dangerous to Israel than Nasr.

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Nasr's Reaction

Nasr's reaction to the recent decline in his prestige has been to attack his Arab rivals by accusing them of softness toward Israel and subservience to the West. Mounting Egyptian press accusations against alleged United States political intrigue in the Middle East reflect his belief that the United States is responsible for his troubles and is "out to get him." Egyptian and Syrian propaganda has sought to link Saudi Arabia, Jordan, Iraq and Lebanon in alleged negotiations with Israel to settle the Arab refugee problem on Israel's terms--all under American pressure.

Jordan's Prime Minister Rifai is represented as having conducted recent negotiations for a peace treaty with Israeli premier Ben-Gurion. Egypt has also attempted to discredit the candidacy in Lebanon of George Malik, long-time friend of the United States, by publicizing a forged letter allegedly exchanged by him with Israel's ambassador in Washington. A composite photograph is reported to have been prepared portraying Jordan's King Hussain in "rock and roll" antics.

The Egyptian press has also moved to enhance Nasr's prestige by reporting plans to make his long-deferred visit to the Soviet Union in August. Other press reports mention a

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forthcoming visit to Syria during which an Egyptian-Syrian union would be concluded. The union proposal has been viewed in the past primarily as a propaganda talking point by the two countries' leaders, and should a "union" now be proclaimed, it would be unlikely to bring Egypt and Syria significantly closer than at present.

Lebanese Elections

In Lebanon, the third round of the four-stage parliamentary election held on 23 June resulted in six more seats for progovernment candidates and four victories for the opposition. Progovernment candidates now have won 40 out of 52 seats contested thus far. The final balloting, for 14 seats in north Lebanon, will be held on 30 June. The relatively good showing by opposition candidates in the 23 June elections may mitigate the bitterness toward the government which has dominated the elections thus far. Nevertheless, new violence is possible during the voting in the northern city of Tripoli on 30 June.

Jordan Developments

King Hussain returned to Amman on 24 June after a two-day visit to Baghdad without the hoped-for promises of increased economic aid. The timing of the visit was inopportune, since the new government of Ali Jawdat had been in office but a few days.

Jordan, meanwhile, is on the verge of an economic crisis. According to a joint British-American local assessment, approximately \$39,000,000 annual aid would be required to maintain Jordan. London has not yet made a decision on continuing development loans, and British officials in Amman are believed by the American embassy there to be interested only in maintaining Jordan's economy on a minimum level, apparently believing that any effort to make Jordan's economy more viable would be futile.

EGYPT'S PARLIAMENTARY ELECTIONS

Egypt's first National Assembly elections since the revolution of 1952 are scheduled for 3 July. Rule by executive decree presumably will end with the first session of the 350-member assembly on 22 July, but the Nasr regime is not likely

to let the initiative pass from its small inner circle to the new body.

The regime prepared for the elections early this spring, confident that opposition would be almost negligible and that

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the result would be overwhelming approval of its policies.

As a result, it has had to resort to an arbitrary use of constitutional provisions, backed when necessary by intimidation and suppression.

The constitution of Egypt, adopted in 1956 after being tailor-made by the revolutionary clique, does not provide for conventional political parties. In place of the parties, there is a National Union, for the purpose of nominating all candidates from among whom the representatives are elected by popular vote. The actual approval of applicants for candidacy is done by the National Union's executive committee, which is appointed by Egypt's president. Its decisions are not subject to appeal, and, in the hands of the regime, it has proved to be an effective weapon for eliminating individuals whose election is not desired. The stated criterion for judging an applicant's qualifications is whether or not he may be counted on to "carry forward the aims of the revolution."

The executive committee announced completion of screening of applicants on 17 June. Out of more than 2,500 applicants, approximately 1,300 candidates were accepted. Of these, over 60 will be unopposed in their campaigns--including 16 members of the Nasr cabinet.

With regard to Communist opposition, the election preparations have hastened an overt settlement of their status. Nasr reportedly had been confident that no significant Com-

munist effort would be made in the elections and was accordingly alarmed when informed in early May that nearly 150 members of the party were submitting applications. The result was his decree of 10 May disqualifying as candidate any individual ever subjected to the regime's "administrative custody." The broad interpretation given this decree eliminated anyone who had been arrested, confined to residence, or even held under police surveillance.

The Communists have decided to back leftists and fellow travelers, and it is unlikely that the regime has been able to weed out such elements entirely, or to tag all the lesser-known Communists not affected by the decree.

A long-time enemy, the extreme rightist Moslem Brotherhood, has renewed its terrorist activities, exploiting the growing discontent of the Egyptian public with Nasr's highhanded tactics. However, aside from its nuisance value, the Brotherhood is not likely to give the regime any serious difficulty. Its methods and history are now distasteful to too many Egyptians for it to regain much popular support.

The only other organized opposition in Egypt today is the remnant of the once dominant Wafdist party. The regime has done an effective job over the years of destroying the party by both propaganda and more stringent techniques, including arrests early this year. Many leaders of this former grassroots party have been discredited as enemies of the revolution and therefore of the people.

A victory at the polls thus seems assured for the regime,

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but its prestige has been harmed by the manner in which all opposition has been suppressed. On the other hand, the election has brought many enemies into the open where the regime can

deal with them, perhaps permanently, and the security gained by the elimination of these sources of danger may outweigh and outlast the loss of prestige. [REDACTED]

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SOVIET PREPARATIONS FOR EARLY LAUNCHING OF AN EARTH SATELLITE

A number of public statements by Soviet authorities concerning earth satellites suggest that the USSR intends to launch an earth satellite soon, possibly in the early phases of the International Geophysical Year (IGY) which begins on 1 July. This program, though it is of major proportions, probably will not interfere seriously with the long-range ballistic missile effort.

A. N. Nesmeyanov, president of the Soviet Academy of Sciences, reported in Komsomol Pravda on 9 June that the USSR would launch its first earth satellite "within the next few months." He was reported in the Soviet press a week earlier to have stated that the USSR now has the "necessary instruments and equipment to aid in solving the problem." However, official Soviet announcements at the Brussels conference (15-20 June) regarding IGY rocket and earth satellite plans revealed nothing new.

In September 1955, Khrushchev openly boasted that the USSR was ahead of the United States in preparations for space satellites. Soviet scientists, on the other hand, have characteristically been cautious about giving information or making official claims of leadership in the race to produce the first successful satellite.

[REDACTED]

Knowing that the probability of failure of a particular launching is approximately 50 percent, it is possible that the USSR will announce a launching only after it has taken place. Timing of the announcement may be influenced by a desire not to reveal prematurely any information from which deductions might be made regarding military missile capabilities.

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Since the USSR has committed itself publicly to launching an earth satellite within the next few months and is well aware of the psychological and political advantages of a "first" in this field, a major effort on its part toward this end is expected. [REDACTED]

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The USSR probably has the capability of orbiting an earth satellite in 1957. It would be desirable though not mandatory to orbit a satellite within a week before or after the solstice period, about 21 June or 21 December, to enable better observation of the satellite at dawn and dusk. [REDACTED]
(Prepared by OSI)

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More Soviet naval units were active in the Mediterranean last week than ever before. Three submarines and one mine sweeper arrived in Alexandria, Egypt, on 16 June, and one cruiser, two destroyer escorts and three destroyers entered the Mediterranean from the Black Sea on 21 June. Major Soviet warships have previously left the Black Sea through the Turkish Straits only to make good-will visits which have been announced in advance.

Submarines

Two long-range "W-class" submarines, one coastal type submarine, and a Soviet mine sweeper arrived in Alexandria on 16 June from the Baltic Sea. All units flew Soviet colors and the submarines apparently remained on the surface throughout the voyage. Moscow radio

announced on 21 June that the USSR had sold three submarines to Egypt to enable the latter "to safeguard its security." These submarines probably will be operated by predominantly Soviet crews for some time to come.

As Egypt's naval requirements could be satisfied by older submarines, it is possible the modern units were transferred to boost Egypt's prestige. The USSR has not furnished any of these modern submarines to Satellite navies. The new Egyptian units constitute a potential threat to Israeli shipping, inasmuch as Israel's navy has an extremely low capability for warfare against submarines.

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SOVIET IRON AND STEEL BUILD-UP BEHIND SCHEDULE

A recent Pravda editorial reported unsatisfactory progress in carrying out the modest 1957 plan for adding productive capacity to the Soviet ferrous metallurgy industry and revealed that construction of

new capacity was well behind the Sixth Five-Year Plan (1956-1960) schedule.

The 1957 targets for new capacity, announced for the first time in this Pravda

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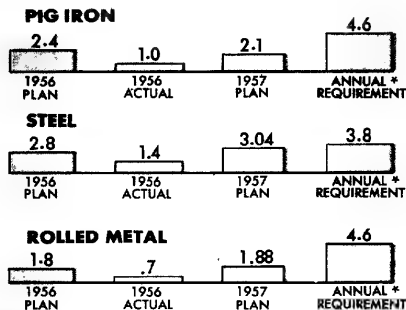
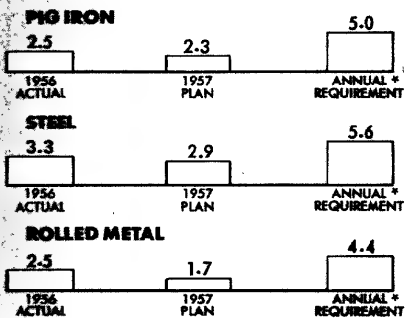
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editorial, are almost identical to those for 1956 and consequently will not be sufficient to make up for the 1956 failures and provide the additions to new capacity originally programmed for 1957. Even if the 1957 construction plan is fulfilled, only about 28 percent of the additions to crude steel capacity scheduled in the five-year plan will be completed at the end of the first two years of the plan. For pig iron and rolled metal, only 18 and 16 percent will be completed, respectively.

This slowdown in expanding the ferrous metallurgy industry is another strong indication that the original Sixth Five-Year Plan over-all industrial production goals will not be fulfilled. The continuing lag in this key industry also constitutes a major pressure on the regime to lower the industrial output goals of the sixth plan.

Prepared by ORR)

**CONSTRUCTION OF NEW
PRODUCTIVE CAPACITY: USSR**
(MILLIONS OF METRIC TONS)

PRODUCTION INCREMENTS: USSR
(MILLIONS OF METRIC TONS)


* Average annual requirement (1958-1960) to meet 1960 goal, assuming fulfillment of 1957 plan.

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HUNGARIAN PARTY DISSENSION

The Hungarian Socialist Workers (Communist) Party apparently continues to be rent by dissension over future policies and control of key party and government positions. The ruling clique headed by party first secretary Janos Kadar, however, still serves as an effective puppet of the Kremlin and probably will receive the endorsement of party delegates at the first party conference which opened on 27 June.

Kadar and his followers, who are trying to adhere at least ostensibly to a center position, are faced with pres-

ures from two other factions. The "neo-Stalinists"--those elements in the party closely associated in the past with Rakosi--favor Kadar's doctrinaire pro-Soviet policies. The "revisionists" still maintain some of the liberalistic and "national Communist" attitudes advocated by Nagy. Certain worker elements in the party also apparently display "social democratic" tendencies.

The extent of factionalism within the party was indicated by a member of the Kadar group, politburo member and Budapest party boss Gyorgy Marosan, on

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8 June when he declared at an activists' meeting that the party reorganization was being hampered by intrigues and personal strife in many places. Obviously responding to complaints from party members who fear implementation of a harsher line, Marosan denied that a "neo-Stalinist putsch" was under way within the party. He admitted, however, that some functionaries who were high officials in the prerevolutionary party and government were not satisfied with their present positions, but he denied that their dissatisfaction involved any ideological differences.

Further warnings against "personal quarrels" were voiced in a 23 June article by old-line Communist Karoly Kiss, politburo member and party secretary. Kiss, who may represent the neo-Stalinist wing of the party at the politburo level, revealed that unjustified accusations by minor functionaries against "honest and devoted comrades" are causing concern among party leaders.

A major dispute appears to be raging over the treatment of intellectuals. Marosan, modifying his earlier attitude toward writers and journalists, on 8 June denied that the party was anti-intellectual but admitted that "on a few occasions we have dealt rather summarily with intellectuals." This apparent change of position--reportedly the result of the urging of a visiting French Communist delegation--has earned for Marosan the enmity of hard-line party members who rebutted his position on intellectuals in a parliamentary address and lampooned his change of heart in a cartoon in the party daily on 11 June.

In any case, on the eve of the national conference, the hard line toward intellectuals was in the ascendant. The party organization in Hungary's

leading law faculty was dissolved on 14 June and a purge appears to be under way in the country's educational system. Regime spokesmen, however, are still making gestures toward the so-called technical intelligentsia, on whom the regime depends for the implementation of its economic program.

The party may also be involved in a dispute over the proper way to handle Nagyists and minority party figures who were active during the revolution.

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The regime in late May arrested Zoltan Tildy, former Smallholders Party leader and a Nagy cohort, but now reportedly has released him; on the other hand, it recently arrested another revolutionary, Peasant Party leader Istvan Bibo, who apparently is to be brought to trial. The final decision concerning such trials, however, will undoubtedly come from the Kremlin.

Kadar appears to have little control over the provincial organization of the party in which old-line Communists who disappeared during the revolution are re-emerging as local party officials. In addition, other Rakosi regime Communists have recently been appointed to parliamentary committees and presumably have high hopes of regaining top-level party jobs.

Kadar is increasingly forced to rely on the neo-Stalinists--despite their threat to his continued retention of power--because he cannot afford to risk co-operation with remaining "revisionists," whose more liberalistic tendencies threaten his basic policies. The Kremlin probably is sympathetic to increased participation of the neo-Stalinists in the ruling circle.

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GOMULKA'S VIEWS DOMINATE POLISH-EAST GERMAN COMMUNIQUE

The views of Polish party leader Gomulka on proper relations between Communist states dominated the communiqués issued in East Berlin on 21 June at the conclusion of Gomulka's visit to East Germany. Although an East German-Polish modus vivendi was reached in which the Germans recognize many Polish ideas on relations within the "commonwealth" of Communist nations, basic differences between Gomulka's party and the East German leaders remain unresolved.

The party communiqué declared that party relations must be based on equal rights and mutual respect of sovereignty, and the East German Socialist Unity Party (SED) endorsed the effective efforts of the Polish United Workers' Party (PZPR) in Poland's program since October. Although adherence to basic principles of Communism was pledged, the two parties recognized that historic conditions and national characteristics may determine various forms and methods of approach in different countries.

Going even further, the East German leaders agreed to the equality of the Soviet Communist Party, the Communist Party of China--"whose significance goes far beyond the continent of Asia"--and all Communist and workers' parties in constituting a common pool of thought and experience for the working class movement.

Although somewhat more restrained in tone than the party pronouncement, the government communiqué was more typical of Satellite documents, agreeing to major points of

Soviet foreign policy, and particularly emphasizing matters of primary interest to East Germany and Poland, such as the Oder-Neisse line and nuclear armaments in West Germany.

The agreement supported the creation of a zone of reduced armament in Europe to include both Germanies and the territory of several of their neighbors. It favored the establishment of an understanding with the Baltic states for a "Baltic sea of peace," declared a readiness to strengthen the Warsaw pact, and announced that consular and customs agreements would be concluded. A reference to Poland's desire for better relations with West Germany was also included.

Gomulka, in his first trip to any Satellite, and the Polish delegation received a distinctly cool reception in East Germany. No mass greeting committee was organized, and none of the top East German leaders accompanied the Polish leaders in their excursions to the countryside. The controlled East German press distorted much of the content of the meetings by eliminating Polish references to the desire for friendship with the West Germans and to the equality of China with the USSR.

East German workers, however, proved more friendly than those in Czechoslovakia, according to a reported comment of Polish premier Cyrankiewicz, a fact which he privately ascribed to the unpopularity of Ulbricht's regime rather than genuine friendliness toward Poland.

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CZECHS REAFFIRM ORTHODOX COMMUNIST POSITION

The Communist regime in Czechoslovakia, in a resolution at the 13-14 June central committee meeting on ideological problems, reaffirmed Czechoslovakia's conservative position on Communist interrelationships and internal political questions.

The Czech regime used this occasion to make its first official party statement on the Mao "many flowers" thesis. The Czech resolution stated that while the Chinese theory was valid for the Chinese situation and the anti-imperialist struggles in Africa and Asia, the strategy was inapplicable to Czechoslovakia, where the regime is engaged in combating full-scale imperialist espionage and subversion. Subsequently the authorized version of Mao's February speech treating in detail the "many flowers" thesis was published in the official Czech press on 21 June, the first such appearance in any European Satellite newspaper. The Czechs have issued no new internal comment on the meaning of the speech for Czechoslovakia.

Perhaps the most significant part of the Czech resolution was a call for "multipartite discussion of important political and ideological questions" and for a new international Communist theoretical and political journal. The reestablishment of a Cominform-type journal has often been rumored, and the American embassy believes it may be announced during Khrushchev's visit to Prague, reportedly scheduled for early July. The resolution did not specify what organization might sponsor the journal, but the Czechs may contemplate sponsorship

through international Communist Party conferences, as they have suggested, rather than by a formal Cominform-type organization.

In discussing internal ideological and party problems, the resolution admitted that some revisionist tendencies existed and recommended that ideological weaknesses among workers, students, and literary elements be corrected. Party Secretary Jiri Hendrych in a major policy speech at the central committee meeting noted that important strata among the Czech intelligentsia and even workers are susceptible to Western-sponsored subversive concepts, notably revisionism, "national Communism" and "people's capitalism." Revisionism, hitherto underestimated, was singled out as the main danger to the international Communist movement.

In its references to the repressive measures to be taken against the intelligentsia, the regime revealed the difficulty it had experienced in attempting to enforce ideological conformity. Henceforth, "Socialist realism" is to be unquestioned, erroneous ideas are to be curbed, and speeches or articles which advocate an opposing policy to that of the regime are to be forbidden.

This restatement of Prague's ideological position probably was motivated by a desire to publicize this "model Satellite's" rigidly orthodox position prior to Khrushchev's forthcoming visit. Since it was just a year ago that the Czech "hard" line was first detailed, the regime may have felt that a restatement of its intention to hold the line at the present limits, or even resort to repression, was necessary.

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POLES REVISE FIVE-YEAR PLAN

A revised five-year plan for 1956-60 was presented to the Polish parliament on 18 June. Circumstances under which the revisions were made suggest that the new plan is intended mainly to preserve the appearance of bloc unanimity rather than provide a firm framework for Poland's economic future. Although more realistic than the original plan, its lack of detail shows clearly that it is not sacrosanct and may be revised or ignored when expedient.

The major tenets of the new five-year plan are a real improvement in the standard of living and a restoration of the balance between the branches of the economy. To accomplish these aims, industrial production now is scheduled to rise 49 percent over 1955 instead of the 53-57 percent originally planned. Investments are being further cut back and lesser sums are allocated to capital goods, the production of which is to increase 50 percent. Consumer goods output is to rise 47 percent, not including the output of small and private producers which has recently been given a renewed impetus. The original plan did not state the goals for an increase in consumer goods production.

The new plan promises much less improvement in living conditions than the Polish people are demanding. The projected 30-percent rise in living standards over the five-year period is a modest goal,

although even this will probably be very difficult to realize. A 27-percent rise in workers' wages during 1956 has been negated in large part by inflation. Increased imports and production of consumer goods are not likely to bring about appreciable improvement soon.

The provisions in the draft five-year plan presented at the seventh party plenum following the Poznan riots were so little related to Polish economic capabilities and the real needs of the Polish people that, after Gomulka came to power, the plan was withdrawn and abandonment of the five-year plan system was considered. The official party paper explained in mid-November that the plan had been prepared under conditions of "undue optimism" and contained a number of provisions which were not suited to the Gomulka program; it added that a five-year plan for 1956-60 was of "dubious importance" anyway.

Adoption of a new five-year plan at this time despite these reservations preserves Poland's conformity with standard practice among bloc countries. Its tentative nature, however, is readily admitted by the regime: "In our present situation...the five-year plan bill has a schematic character. In current production and in investments, it is of a transitory nature and adaptable to the current economic program."

(Prepared by
ORR)

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ITALIAN CABINET DEVELOPMENTS

Premier Zoli's agreement to withdraw his 10 June resignation probably provides only a temporary solution to the Italian government crisis.

New difficulties are expected when controversial parts of his original program come up for parliamentary approval. President Gronchi may be obliged

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to dissolve the Chamber of Deputies and call national elections, probably for October.

Developments over the past few weeks have indicated that no parliamentary majority exists for Zoli's program as a whole. Although he was originally confirmed with the votes of rightist parties seeking to end their political isolation, these parties are unlikely to vote for the proposed laws to regulate farm contracts and to set up regional assemblies. Moreover, the attempt last week by Christian Democratic Party secretary Fanfani to reconstitute the old coalition failed because the small center parties balked at his repetition of Zoli's program.

Zoli probably will not encounter much opposition to a measure for provisional extension of government appropriations which would otherwise expire on 30 June. A majority also seems to exist for ratification of the Common Market and EURATOM treaties. The first controversial legislative proposal to come up, however, is likely to lead to a new impasse. President Gronchi reportedly is still reluctant to use his power to dissolve the Chamber of Deputies before the expiration of its legal term next spring, but he would probably give in to strong pressure for October elections from the Christian Democratic Party if parliamentary developments seemed to offer no other solution.

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FRENCH GOVERNMENT PROSPECTS

The French National Assembly's approval of fiscal measures it had earlier refused former premier Mollet makes it possible for Premier Bourges-Maunoury to seek ratification of the EURATOM and Common Market treaties before the summer recess. Since major financial difficulties are still ahead and division is growing in France over Algerian policy, there is no assurance that his government will long survive.

Bourges-Maunoury still has to deal with France's chronic balance-of-trade deficit and depleted gold and foreign exchange holdings. On 17 June, the government reimposed quantitative restrictions on imports to counter the trade imbalance and will probably have to tap the Bank of France's gold reserves next month. Anticipated further steps include requests for loans from the

International Monetary Fund, the West German government and the United States, as well as renewed efforts to hold down the cost of living.

Growing domestic opposition to the Lacoste pacification program in Algeria may become a major problem for the cabinet. Bourges-Maunoury has promised to speed legislation establishing a new Algerian political framework and probably hopes by such an approach to mollify opponents of pacification without incurring the wrath of die-hard French nationalists. All French political parties, save the Communists and Poujadists, are divided in some measure on Algerian policy, but as yet most French political leaders still fear to oppose openly the Lacoste thesis that Algeria can be held mainly by military means.

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The press is becoming more critical, however, and the Socialist Party's national congress which opened on 27 June may reveal increasing pressure for a federal relationship between France and Algeria. Press

reports that the Algerian nationalists now are willing to consider a cease-fire without demanding independence as a precondition may encourage defeatism in France and embarrass the government.

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LAOTIAN POLITICAL CRISIS

Bong Souvannavong, left-wing leader and Pathet Lao sympathizer, has been designated to form a cabinet in the month-old Laotian political crisis. His appointment follows Nationalist Party leader Katay's unsuccessful bid for investiture and Independent Party chief Phoui Sananikone's refusal to try to form a cabinet.

Bong's chances of winning the necessary two-third's assembly approval appear slim, although he can be expected to make a persuasive appeal for a neutralist foreign policy and an immediate settlement with the Pathet Lao. While Bong will presumably be supported by the small National Union and Democrat Parties, he is unlikely to win support from the leading Nationalist and Independent Parties, either of which has sufficient representation in the assembly to block him.

An effective demagogue and adept at political intrigue, Bong will undoubtedly use di-

visive tactics in an effort to split the present alliance between the former political enemies, Katay and Phoui. These two leaders only recently submerged their differences to unite in favoring a firm policy toward the Pathet Lao, and there have already been several indications that their rapprochement is subject to severe strain.

If Bong is defeated, as appears probable, the crown prince may designate either Katay, Phoui or outgoing prime minister Souvanna Phouma as cabinet formateur. The latter's prospects have materially improved with the defeat of Katay last week, and the president of the National Assembly has indicated that the assembly would be disposed to accept a Souvanna Phouma government with Katay and Phoui as principal lieutenants. Such a government would probably suffer from serious internal stresses because of the dissimilarity of views of its leaders on the Pathet Lao issue.

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INDONESIA

Municipal elections in Djakarta on 22 June revealed a substantial growth of Communist strength. Although the anti-Communist Masjumi won a plurality as it did in the national elections of 1955, it ran

only 19,000 votes ahead of the Communists, who in 1955 had run a poor fourth. The National Party and the Nahdlatul Ulama (NU) fell from second and third places, respectively, in 1955 to third and fourth.

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Elections throughout the remainder of Java are scheduled for the near future. The Communists polled a strong second place in both East and Central Java in 1955 and probably will do at least as well again this year. Provincial leaders of the National Party and the NU have voiced more concern over the Communist threat than their national leaders in Djakarta, but there is little indication they have undertaken effective action to counter the vigorous and well-financed campaigning of the Communists.

President Sukarno has announced that his national advisory council will be installed as soon as all 45 seats are filled. A certain amount of reshuffling is under way, since several individuals have rejected their appointments, several have accepted conditionally, and some have been withdrawn by sponsoring organizations. Such changes will, if anything, strengthen the council's leftist orientation.

In an effort to remedy the central government's deteriorating economic situation, the prime minister on 20 June announced adjustments in import-export regulations which permit the sale of foreign exchange according to prevailing market rates rather than at an official fixed rate. The regulations amount to a devaluation of the rupiah and will chiefly benefit exporters. Many Indonesians in non-Javanese areas have avoided paying government revenues by setting up an advantageous barter trade, and the new regulations will probably offer little inducement for them to resume official trade channels.

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PHILLIPINE ELECTION CAMPAIGN

The field of candidates for the November Philippine presidential election is narrowing as both major parties prepare to hold nominating conventions in July. Several ranking aspirants in the ruling Nacionalista Party have announced their intentions to withdraw from the race and back the re-election of President

Garcia. The failure of all contenders to withdraw, however, has left open the possibility that such pledges may not be honored at the party's convention, now scheduled for 27-28 July.

A move to abandon Garcia could develop if Manila's Mayor Lacson, a vice-presidential

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hopeful, carries out a threat to present on the convention floor a documented "exposé" of President Garcia's involvement in corruption.

Nacionalista Party president Rodriguez' comment that Lacson's charges would have little effect on Garcia's prospects suggests that Garcia may have agreed to concessions to gain the support of party leaders. Currently, there are prospects that a Garcia-Laurel Jr. slate may be presented to the convention as the considered choice of the party leadership.

The Nacionalistas, however, have not only failed to resolve fully the internal conflicts among rival presidential and vice-presidential nominees, but remain divided over selection of candidates for the Senate and the House of Representatives. Furthermore, the continued independent presidential candidacy of Senator Claro Recto offers a threat to the Nacionalistas, as it provides a haven for those who lose out in the nominating procedure. In this connection, both Lacson and "sugar bloc" politician Senator Fernando Lopez--as a result of Garcia's last-minute veto of legislation favorable to export interests--are reported making gestures of support to Recto.

The opposition Liberal Party continues to express optimism

over the election prospects of its probable presidential and vice-presidential candidates, prewar Speaker of the House Jose Yulo and Congressman Diosdado Macapagal. The Liberals are concerned, however, over the congressional race, since they hold at present no seats in the Senate and only 35 of the 104 seats in the House.

The party is reluctant to run several of its ranking members, who are popularly identified with the corruption of the former Quirino administration, and hopes to include on its senatorial slate members of the new Progressive Party, formed by politicians close to the late president Magsaysay. The Liberals' convention, originally planned for June, has been postponed to mid-July so that negotiations with the Progressives might continue.

The Progressives have lost considerable bargaining power by the failure of their most likely presidential candidate, Manual Manahan, to attract popular support. Furthermore, several officials close to Magsaysay have remained loyal to President Garcia and the Nacionalista Party. Indications are that the Progressive Party will be unable to arrange a favorable coalition and may gradually fade out of the political picture. Some prominent Progressives are reportedly already prepared to abandon the new party and affiliate individually with the Liberals.

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POSSIBLE CIVIL UNREST IN CEYLON

The possibility of widespread violence in Ceylon is increasing as the Hindu Tamil-speaking population of northern Ceylon is planning a civil disobedience campaign for late August. The Tamils will be opposed by Buddhist Sinhalese-

speaking extremist elements from other parts of the island. Government forces are preparing to suppress the campaign.

The Tamil Federalist Party, spearhead of the movement by Hindu inhabitants of Indian

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descent to achieve Ceylonese citizenship and recognition of their Tamil tongue as a Ceylonese national language, has advanced four demands which it says must be met if the civil disobedience program is to be canceled. These are a federal autonomous state in northern Ceylon, citizenship rights for all residents of Indian descent, parity of Tamil with Sinhalese as a national language, and a promise that the Tamil area will not be colonized by Sinhalese.

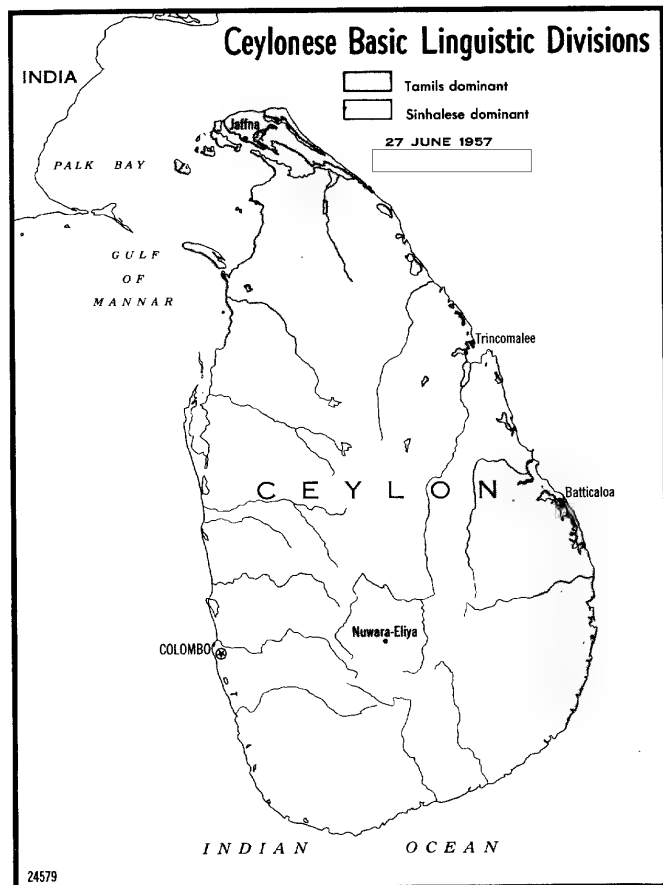
Prime Minister Bandaranaike is seriously perturbed over the possibility of violence created by the Tamils, who comprise 2,000,000 of the island's 8,500,000 population. He plans to

mobilize all police and active reserve units of the armed forces by early August. He has also considered formation of a volunteer force of 100,000 members of his Sri Lanka Freedom Party to help keep the peace, but this idea has met violent opposition from all sides. In addition, the government has banned the sale of firearms and forbidden foreign travel without special clearance.

On the other hand, Bandaranaike has attempted to pacify the Tamils by offering them concessions, including the right of Tamil children to be educated in their mother tongue, establishment of a reasonable period for Tamil-speaking public servants to learn Sinhalese, and the right of local administrations to conduct business in the Tamil language if they wish.

The Tamils remain unsatisfied. In early June, Federal Party demonstrators stoned government ministers touring northern Ceylon in an effort to explain the government's position. On 13 June, Federal Party members walked out of the opening meeting of parliament when the governor general began an address in Sinhalese.

Simultaneously, Buddhist extremist elements have indulged in violence in protest against Bandaranaike's proposals for the use of Tamil in Ceylon. Buddhist efforts to hold a mass meeting in Colombo on 11 June, which were thwarted by the police, were followed by a march

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on the prime minister's home, during which several persons were wounded. There have been reports that Buddhists are also forming a "private army" to oppose the Tamils next August.

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PRO-COMMUNIST LEADERS IN PAKISTAN MOVE TOWARD NATIONAL FRONT

Under the direction of the most effective pro-Communist leaders in Pakistan, an alliance of leftist parties is taking shape which could emerge as a distinct threat to Pakistan's present leadership during the national elections scheduled for next spring. The Communist-dominated Pakistan National Party (PNP), in the forefront of this movement, has been fast developing as a mass organization in sections of West Pakistan. Recent political developments in East Pakistan indicate the PNP soon may emerge as the instrument for unifying pro-Communist groups in both provinces into a single opposition.

The Communist Party of Pakistan, small in numbers and weakened by chronic factionalism, has been outlawed since July 1954 and operates primarily through front parties and through infiltration of established political organizations. The most effective service in the Communist cause has long been performed by pro-Communist Mian Iftikhar-ud-Din, wealthy publisher of the Pakistan Times

and Imroze, influential newspapers which regularly follow the Communist line. Late in 1956, Iftikhar-ud-Din's Communist-front Azad Pakistan Party, never a real force in Pakistani politics, merged with five other small provincially oriented parties in West Pakistan to form the PNP.

During the past five months, the new party reportedly has been gaining strength rapidly in the Northwest Frontier area. The success of its program derives largely from the popular appeal of Abdul Ghaffar Khan, widely known for his pro-Push-toonistan activities, who has assumed nominal leadership of the Frontier PNP. The main themes stressed by the PNP in West Pakistan are abolition of the one-unit system, the arrangement under which West Pakistan's six provinces were merged in 1955 into a single administrative unit, and "the new American imperialism."

Communist Party workers previously concentrated on penetrating the Awami League

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organization of Prime Minister Suhrawardy, but in recent months have shifted their efforts toward the PNP. Most of the leading Communist workers have now established themselves in key posts in various PNP provincial units, though some remain within the Awami League. Suhrawardy's success in mid-June in defeating the pro-Communist Bhashani faction of the East Pakistan Awami League and establishing his control over the party will probably accelerate this shift to the PNP.

Leaders of the PNP for some time have indicated an eagerness to join with Maulana Bhashani and develop his wide following in East Pakistan as the nucleus of a leftist mass movement opposing Pakistan's present leadership. Talks be-

tween Bhashani and Iftikhar-ud-Din in Dacca on 15-17 June resulted in an announcement that an all-party convention would meet on 25 July to consider mutual problems and the possible formation of a new national leftist party.

The PNP in West Pakistan and Communist-front elements in East Pakistan agree on the prime issues of regional autonomy and anti-Western foreign policy. An election campaign sparked by Ghaffar Khan and Bhashani, two of the most effective mass leaders in Pakistan, would be likely to attract considerable support from the electorate if leftist politicians in both provinces submerge their differences and personal rivalries and agree on a national program.

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POLITICAL DEVELOPMENTS ON OKINAWA

Pro-Communist Mayor Kamejiro Senaga of Naha, Okinawa, has begun a vigorous campaign on behalf of leftist candidates for the city assembly which is designed to forestall his ultimate removal from office. His conservative opponents must win at least 20 of the 30 seats in the election scheduled for 4 August to assure a second no-confidence vote against the mayor by the new assembly.

Senaga dissolved the city assembly on 18 June and opened his campaign the next day in a speech to a captive audience of city workers in which he threatened strong action against any employee supporting the conservative opposition. In addition to using the city organization in the campaign, the mayor can be expected to exploit appointments to lucrative posts in city-operated businesses.

Senaga will pose as the champion of Okinawan grievances against the United States, emphasizing such popular issues as reversion to Japan and opposition to the acquisition of land by American forces. To cover his vulnerability on the present inactivity in city construction, caused by refusal of banks to loan money to the pro-Communist administration, he is seeking funds to resume the building of a port terminal building.

The initial elation of the anti-Senaga forces over their success in passing a no-confidence motion on 17 June is fading. Their campaign is being hampered by the decision of at least three conservative assemblymen not to run for re-election and by the tenuousness of conservative co-operation.

The opposition, however, still appears to have a good

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chance of winning 20 assembly seats and then of carrying a second vote of no confidence against Senaga, possibly in September. This would force

a new election for mayor in which Senaga has declared he will be a candidate and which he might still win.

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PART III

PATTERNS AND PERSPECTIVES

THE VIENNA CONGRESS OF THE SOCIALIST INTERNATIONAL

The biennial congress of the Socialist International, meeting at Vienna on 1-5 July, is expected to pass strong resolutions condemning Soviet actions in Hungary and nuclear weapon's testing; it will face internal differences on colonialism and various other international questions. The congress, whose constituent parties represent a substantial proportion of the Western European electorate, will also be attended by Japanese and other Asian delegations.

Conference Issues

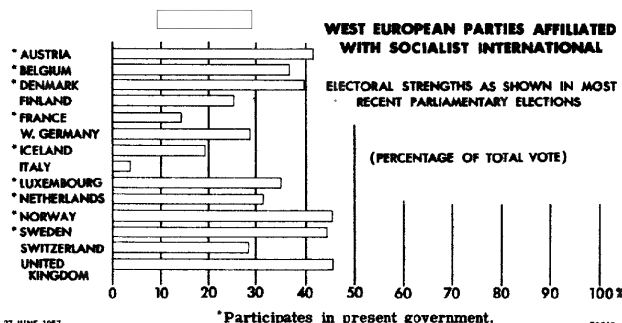
The International has repeatedly gone on record as rebuffing Communist overtures for unity of action on either the international or local level, and the fifth congress is expected to reaffirm this stand. Virtual unanimity is anticipated on a resolution condemning Soviet actions in Hungary.

The nuclear testing issue will arouse strong feelings. European Socialist parties have paid special attention to this question in recent months, particularly since Dr. Schweitzer's appeal for a ban on testing. A number of them, such as the powerful West German and British parties, have used the subject in one way or another as a domestic political issue. The congress may also be further influenced by the Japanese party, which reportedly is sending an unusually large delegation.

It is expected that the congress will pass a strong resolution demanding an international agreement for a ban on

further nuclear weapons tests and institution of strict controls over nuclear armament. There may also be a tendency to give added emphasis to the issue as providing an area of agreement between parties split on other issues and as a bridge between European and Asian opinion.

Divisions are likely on the question of Western Europe's relations with other parts of the world. Asian socialists will seek recognition of colonial problems and will try to obtain the International's support for ultimate liberation of the remaining colonies. On the other hand, French Socialists are



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ranged almost as solidly in defense of their country's colonial policy, and some other parties, such as the Belgian and Dutch, will seek to play down the issue. Efforts will be made to heal a serious schism between the French and British parties over the latter's condemnation of the Suez intervention. There are also reports that the North African question will be brought up at the congress, thus further estranging the French from the other parties.

West German Socialist leader Ollenhauer is scheduled

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to make a major address on German unification, reiterating his standard attack on Bonn's military alliance with the West and proposing his own plan for a collective European security system to include all of Germany, along with its neighbors to the East and West, under a mutual nonaggression pact. There will be considerable sentiment at the congress for such a plan as well as for establishing a central European neutral area. Hugh Gaitskell, leader of the British Labor Party, will probably reiterate his recent proposal for such a belt.

The establishment of party relations with Poland and Yugoslavia will reportedly be recommended by the Norwegian Labor Party. Feelers from Warsaw to a Dutch Socialist leader were reported last fall and the question of ties with Tito's party has been raised on various occasions. A number of Socialist party delegations have visited Yugoslavia since the 1955 congress and the consensus appears to oppose establishing permanent relations.

Influence of the International

The importance of the congress lies largely in the influence its discussions will have on the views, held by the member parties and, through them, on European public opinion generally. Most of the European parties are either present members of coalition governments or, like the British and West German parties, strong contenders for power.

The International has no mandatory powers over the national parties; its purpose is officially defined as merely "to strengthen relations between the affiliated parties and to co-ordinate their political attitudes by consent." It does, nevertheless, have considerable prestige in socialist circles.

Considering itself a lineal descendent of the Second International of 1889, it received its present organizational form at a July 1951 congress in Frankfurt when the Western European socialists finally gave up their hope that it might prove possible to co-operate with the Communist and Socialist parties of the Eastern European states. It has given general guidance to the development of postwar democratic socialism, particularly to the weaker parties, and has focused international attention on the achievements of individual parties.

Within limits, moreover, the International can exercise a direct influence on socialists in a particular country through its power of deciding which of two rival parties it will admit to membership. In the past decade this leverage has been used to smooth over rivalries between factions in several countries, and within the past year the International has made various efforts toward bridging the long-standing gap between its Italian member party, the Democratic Socialists, and the Nenni Socialists. A commission of the International is to report on this question at the congress, but no definitive action is expected--in part because of strong reservations within the International regarding the Nenni party's relations with the Communists and to an even greater extent because of recent developments in Italy.

Some thought may also be given to reconciling the two factions within the Finnish Social Democratic Party, whose rivalry forced the party's withdrawal from the government in mid-May. The split could lead to the Finnish Communists' obtaining some support from disgruntled radical Social Democrats.

Besides its close association with the various socialist

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organizations of Western Europe, the International also has ties with similarly minded bodies in the rest of the world. It maintains close liaison with the Asian Socialist Conference. The Social Democratic Party of Japan and Israel's labor party, the Mapai, are full members of the International as well as of the Asian Socialist Conference. The Praja Socialists of India and the Pan-Malayan Labor Party have permanent observer status at the International, and a number of other Asian parties are scheduled to send observers to the Vienna congress.

Despite such efforts to promote democratic socialism in non-European areas, however, the International's effective influence on national policies remains largely confined to Western Europe. Its contacts with Eastern Europe are limited largely to recognition of the Eastern European Socialist parties in exile. With Africa, it maintains only an indirect link through the French Socialist Party's sponsorship of the African Socialist Movement, while its contacts with the Arab world are also quite limited.

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FOREIGN AID PROGRAMS IN AFGHANISTAN

The Afghan government is dissatisfied with the high prices the USSR is charging for economic development work under the \$100,000,000 Soviet credit. Afghan leaders, while reluctant to abandon their hopes for rapid economic development through the use of Soviet aid, apparently are exploring alternative sources of funds. This development comes at a time when West Germany, Pakistan, and the United States are moving to expand their roles in Afghanistan. Afghan leaders may delay indefinitely construction work on some Soviet projects. Kabul might even turn over to other countries some of the projects, or portions thereof, previously allotted to the USSR, just as it earlier turned over to the Russians responsibility for certain projects previously surveyed by West Germans.

The Soviet Offers

When the USSR opened its economic offensive in Afghanistan

in 1954, it undertook some projects which would have an immediate, dramatic impact, as well as some which had long-range economic value. A bakery-silo complex, petroleum storage tanks, and street-paving in Kabul all were built on terms generally satisfactory to Afghanistan. Therefore, when Bulganin and Khrushchev during their December 1955 visit offered a \$100,000,000 loan at only 2-percent interest and with deferred payment terms, the Afghans presumably thought they were obtaining another advantageous arrangement.

Both countries quickly reached agreement in principle on 19 major projects the USSR was to construct under the new loan. The USSR sent technicians and equipment to survey most of the projects in the summer of 1956. Although in a few cases there is still no information that surveys have been either started or completed, in most instances, both preliminary

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engineering and cost surveys were finished by last fall or winter. Little further work was accomplished during the winter months because of roads blocked by snow or mud.

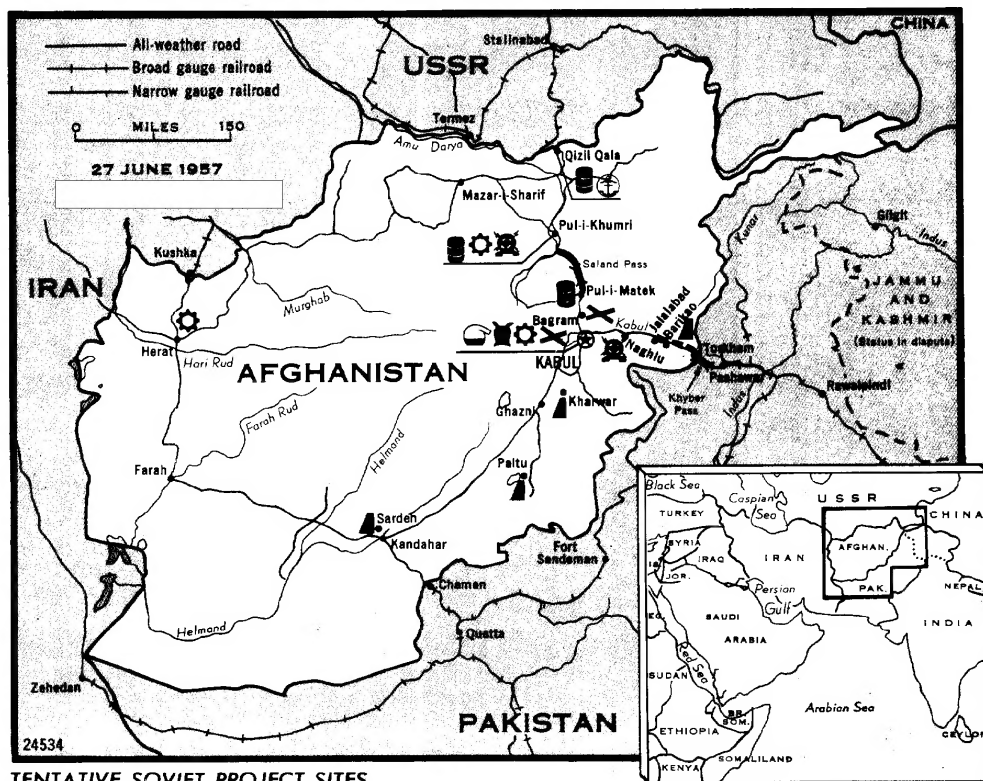
High Costs and Delays in Work

Despite Afghan requests that the USSR proceed on the basis of previous West German surveys of some of the projects, the Russians insisted on doing new surveys before they would undertake any work. The Afghans reportedly are dismayed by the prices charged by the Soviet Union for survey and construction work, Soviet prices being much higher than those charged by the Germans. In one ex-

treme case, that of the Pul-i-khumri hydroelectric project, the USSR reportedly charged \$135,000 for a survey done earlier by the Germans for \$8,000.

construction contracts on many projects have not yet been signed and the only actual construction activity under way on 20 June 1957 was on the petroleum storage depots at Pul-i-khumri and Pul-i-matek in northern Afghanistan and on certain parts of the port of Qizil Qala and nearby road systems, through which much trade and bloc military aid deliveries pass.

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**TENTATIVE SOVIET PROJECT SITES**

- | | | | |
|---------------------------------|--------------------------|----------------------------|----------------------|
| ■ CONSTRUCTION BEGUN | ⬮ Petroleum storage tank | ⚙ Motor repair shop | ⬮ Fertilizer plant * |
| ▨ SURVEY UNDER WAY OR COMPLETED | ⬮ Hydroelectric project | — Salang Pass road | ⬮ Laboratory |
| ▨ UNDER CONSIDERATION | ⬮ Irrigation dam | — Jalalabad-Torkham road * | ✕ Airfield |
| | ⬮ Port | | |

*Soviet construction reportedly rejected.

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The Afghans are concerned that most of the \$8,000,000 or more expended by the end of 1956 has gone for surveys and services rather than for construction. They have been especially concerned over the \$6,200,000 price tag originally placed on the reconstruction of the Kabul airport. After long negotiations, the USSR agreed to reduce the price to \$5,700,000, still almost twice the price asked earlier by the Germans for nearly the same work.

The Afghan Ministry of Public Works now has been ordered to obtain separate estimates from the USSR for each component of the project, and to undertake those parts which the ministry itself is competent to handle. The ministry reportedly plans to award the USSR a contract to build the runway and to stall on the remainder of the project in the hope that later it can get a different contractor to do the buildings.

In addition, following receipt of Soviet cost surveys, the Afghans are said to have decided to build the Jalalabad-Torkham road without Soviet aid and to reject the Kabul fertilizer plant as too large for Afghan needs.

Afghan Reaction

Since the Afghans pride themselves on their bargaining skill, the gradual realization that they are not receiving the better part of the bargain is apparently galling them. They are reacting by seeking alternative sources of funds and technical aid from such countries as the United States and West Germany.

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Recent Afghan requests for American aid have included one for US petroleum companies to build storage facilities and to retail oil supplies in Afghanistan. There has also been intensified pressure on the United States to begin a program of railroad construction in the country.

West German Offers

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Siemens has had extensive experience there and recently completed the first portion of the Sarobi hydroelectric project, which has more than doubled Afghanistan's generating capacity. Credit terms for future contracts between Afghanistan and Siemens reportedly were discussed during the visit of a West German economic delegation to Kabul in May. These terms provide for Siemens to extend credit for an eight-year period for 75 percent of the cost of any project it undertakes.

The West German delegation had been sent by a government committee newly organized in Bonn to aid semideveloped areas. The committee reportedly has about \$12,000,000 available for technical assistance to Asian nations, of which about \$1,200,000 is earmarked for Afghanistan if a satisfactory arrangement can be achieved. Bonn is prepared to establish an economic advisory committee in Kabul and supply teachers and equipment for a West German technical school as well as technicians in a number of specific fields. Although no definite agreement has been signed, the Afghan cabinet reportedly has approved

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acceptance of the program in principle.

In addition, a West German economic commission reportedly is to visit Kabul this summer to offer a loan of approximately \$14,000,000. Although the loan is ostensibly to be from private German firms, 70 percent of it is to be backed by the Bonn government. No definite terms have been decided on, but preliminary information is that it will be an eight-year credit with the possibility of a five-year extension.

Alternative Attractions

Afghanistan originally accepted the Soviet \$100,000,000 loan shortly after experiencing an economic blockade by Pakistan and at a time when there appeared to be no other source than the USSR for large-scale economic assistance to build up Afghanistan rapidly and make it economically independent of Pakistan. At present, Daud would be reluctant to admit that his policy of relying so heavily on the USSR was mistaken. He would be equally reluctant, however, to pay inflated prices

for Soviet development projects if he had West German or other Western offers from which to choose as well. Negotiations now under way with West Germany, the United States, and Pakistan raise the possibility that in the near future Daud may have alternative attractions to use in bargaining with Moscow.

Daud presumably would hesitate to antagonize the USSR, which is still his sole source for the arms he feels are necessary for modernizing Afghanistan's armed forces. If the USSR continues to charge such high prices, however, Daud might seriously consider delaying construction work on Soviet projects until he had thoroughly explored other possibilities. This he could do, since Kabul has signed few actual contracts with the USSR and therefore has not obligated the majority of the \$100,000,000 loan funds. If other more attractive offers are made, Daud might turn certain projects hitherto reserved for the USSR over to other contractors.
(Concurred in by ORR)

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